

Renewable Energy Question 18: *How has Michigan handled the decision regarding what entities should construct and own renewable energy (e.g. an incumbent utility, an independent developer, feed-in tariffs)? What has been the practice in other jurisdictions? Has the type of project, cost of project, etc. varied depending on the entity constructing or owning the project?*

Executive Summary

1. Under Public Act 295, incumbent utilities have the ability to own a portion of the renewable energy generation required to meet the requirements of the Act, with the remaining portion to be procured from independent power producers (IPPs).
2. DTE Energy has chosen to own up to the maximum amount of renewable energy capacity but has also worked closely with IPPs on their respective projects to share best development, construction and operating practices.
3. DTE-owned renewable projects and those of IPPs compare favorably in terms of type, quality and cost. However, IPP projects pose unique risks to Michigan families, businesses and communities that do not exist in incumbent utility-owned projects, primarily in the form of pricing risks such as imputed debt and contract re-pricing.

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- 1. Under Public Act 295, incumbent utilities have the ability to own a portion of the renewable energy generation required to meet the requirements of the Act, with the remaining portion to be procured from independent power producers (IPPs).**

As per Public Act 295 Section 33, an electric retail provider that has in excess of 1,000,000 or more retail customers in Michigan as of January 1, 2008, has the option to own renewable generation to generate up to but no more than 50% of the renewable energy credits required to meet the 10% Renewable Portfolio Standard. At least 50% of the renewable energy credits shall be from renewable energy contracts that do not require transfer of ownership of the applicable renewable energy system to the electric provider or from contracts for the purchase of renewable energy credits without the associated renewable energy.

- 2. DTE Energy has chosen to own up to the maximum amount of renewable energy capacity but has also worked closely with IPPs on their respective projects to share best development, construction and operating practices.**

To date, DTE Energy, an incumbent utility, has chosen to own up to its maximum allowed renewable energy generation to meet the requirements of PA 295. The remainder of DTE's RPS compliance is being met through Power Purchase Agreements (PPAs) with IPPs, as well as with purchase agreements for renewable energy credits with no energy or capacity component (such contracts are also known as unbundled renewable energy contracts). In contracting with IPPs, DTE has secured the ability to participate in the development and construction of third-party projects to learn and share industry best practices. This collaboration has led directly to savings on both DTE's and the IPPs' projects through scale efficiencies, project footprint optimization and

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implementation of best-in-class operating policies and procedures. An example of this collaboration was DTE's Sigel Wind Park. On this wind project, DTE worked closely with a local wind developer to combine land holdings that allowed for optimal turbine siting, which in turn led to greater turbine production and lower overall cost to Michigan's families, businesses and communities.

3. DTE-owned renewable projects and those of IPPs compare favorably in terms of type, quality and cost. However, IPP projects pose unique risks to customers that do not exist in incumbent utility owned projects, primarily in the form of pricing risks such as imputed debt and contract re-pricing.

To date, DTE-owned projects, constructed and under contract, have a weighted average levelized busbar cost of approximately \$67/MWh. This compares favorably to the weighted average cost of contracted, IPP power purchase agreements (PPAs) of approximately \$72/MWh. PPAs have incremental inherent risks that could lead to increased cost that is outside the control of DTE and the IPPs. Two such risks are:

- Imputed debt: this is a potential cost increase that could arise should the Generally Accepted Accounting Principles (GAAP) be modified by the Financial Accounting Standards Board (FASB) in the way that would change how DTE would be required to account for PPA contracts in its financial reports. PPA contract obligations could be treated as debt on DTE Energy's balance sheet, thereby changing its capital structure negatively. Having a strong and healthy balance sheet helps drive down costs to DTE's customers, so any negative balance sheet impacts would have negative impacts on the cost that customers incur. Similar increases in cost could also be driven by DTE's bond rating agencies (Standard & Poor's, Moody's and Fitch) modifying their accounting of such PPA contract obligations.
- Contract re-pricing: contract re-pricing can also have negative impacts on the cost that DTE's customers ultimately pay for renewable energy from IPPs. This risk occurs at the end of a PPA's contract life. Currently, all of DTE's renewable energy PPAs have a contract term of 20 years, at the end of which the PPA provider has no obligation to continue the delivery of energy and associated renewable benefits. DTE will then likely need to procure a replacement PPA, which could be with the incumbent or another IPP. By that time, market prices for the new PPA could be significantly higher than the prior PPA price. By contrast, a comparable DTE-owned renewable energy project, at or around year 20, would be less costly, as the asset has been depreciated downward. This leads to a significantly lower cost to customers over time and is not subject to the cost increase risk described above for independent power producer PPAs.